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January 14, 2011

The Honorable Gary Stevens
President of the Senate
Alaska State Legislature
State Capitol, Room 111
Juneau, AK 99801-1182

Dear President Stevens,

Oil production in Alaska remains the backbone of our economy. As oil production declines and as the federal government forbids multiple development opportunities we must better incentivize development of state lands. To that end, under the authority of Article III, Section 18, of the Alaska Constitution, I am transmitting a bill to make Alaska more competitive as an oil producing state by proposing amendments to Alaska's oil and gas production tax.

The bill would provide tax incentives and credits for the oil and gas industry to increase exploration for, and development of, Alaska's oil and gas resources at any price range. We must remain focused on getting more oil into the pipeline, and creating jobs for Alaskans.

The bill accomplishes six primary goals: (1) encourages development of new, currently undeveloped leases or properties; (2) encourages investment in exploration, development, and production at all price ranges; (3) strengthens the minimum tax; (4) extends tax incentives to North Slope activities and allows producers to apply tax credits in one year; (5) limits the time for assessment of additional production taxes; and (6) reduces the interest rate on delinquent taxes and refunds. These changes would ensure the State continues to receive reasonable revenue and establish a more competitive investment climate for job creation.

These amendments to Alaska's oil tax regime will foster new production sources to stem the decline in North Slope production. More oil means more jobs for Alaskans, more long-term revenue to the State, and lower Trans-Alaska Pipeline System tariffs per barrel.

I urge your prompt and favorable action on this measure.

Sincerely,

A handwritten signature in blue ink that reads "Sean Parnell".

Sean Parnell
Governor

Enclosure

SENATE BILL NO.

IN THE LEGISLATURE OF THE STATE OF ALASKA

TWENTY-SEVENTH LEGISLATURE - FIRST SESSION

BY THE SENATE RULES COMMITTEE BY REQUEST OF THE GOVERNOR

Introduced:

Referred:

A BILL

FOR AN ACT ENTITLED

1 "An Act relating to the interest rate applicable to certain amounts due for fees, taxes,
2 and payments made and property delivered to the Department of Revenue; relating to
3 the oil and gas production tax rate; relating to monthly installment payments of
4 estimated oil and gas production tax; relating to oil and gas production tax credits for
5 certain expenditures, including qualified capital credits for exploration, development,
6 and production; relating to the limitation on assessment of oil and gas production taxes;
7 relating to the determination of oil and gas production tax values; making conforming
8 amendments; and providing for an effective date."

9 **BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF ALASKA:**

10 * **Section 1.** AS 05.15.095(c) is amended to read:

11 (c) A delinquent fee bears interest at the rate set by AS 43.05.225(2)
12 [AS 43.05.225].

1 * **Sec. 2.** AS 34.45.470(a) is amended to read:

2 (a) A person who fails to pay or deliver property within the time prescribed by
3 this chapter may be required to pay to the department interest at the annual rate
4 calculated under AS 43.05.225(2) [AS 43.05.225] on the property or the value of it
5 from the date the property should have been paid or delivered.

6 * **Sec. 3.** AS 43.05.225 is amended to read:

7 **Sec. 43.05.225. Interest.** Unless otherwise provided,

8 (1) when a tax levied in this title becomes delinquent, it bears interest
9 in a calendar quarter at the rate of three [FIVE] percentage points above the annual
10 rate charged member banks for advances by the 12th Federal Reserve District as of the
11 first day of that calendar quarter, or at the annual rate of 11 percent, whichever is
12 lesser [GREATER], compounded quarterly as of the last day of that quarter;

13 (2) the interest rate is 12 percent a year for

14 (A) delinquent fees payable under AS 05.15.095(c); and

15 (B) [REPEALED. AND

16 (C)] unclaimed property that is not timely paid or delivered, as
17 allowed by AS 34.45.470(a).

18 * **Sec. 4.** AS 43.20.046(i) is amended to read:

19 (i) The issuance of a refund under this section does not limit the department's
20 ability to later audit or adjust the claim if the department determines, as a result of the
21 audit, that the person that claimed the credit was not entitled to the amount of the
22 credit. The tax liability of the person receiving the credit under this chapter is
23 increased by the amount of the credit that exceeds that to which the person was
24 entitled. If the tax liability is increased under this subsection, the increase bears
25 interest under AS 43.05.225(1) [AS 43.05.225] from the date the refund was issued.

26 * **Sec. 5.** AS 43.50.570 is amended to read:

27 **Sec. 43.50.570. Interest.** A licensee who fails to pay an amount due for the
28 purchase of stamps within the time required

29 (1) is considered to have failed to pay the cigarette taxes due under this
30 chapter; and

31 (2) shall pay interest at the rate established under AS 43.05.225(1)

[AS 43.05.225] from the date on which the amount became due until the date of payment.

* **Sec. 6.** AS 43.55.011(e) is amended to read:

(e) There is levied on the producer of oil or gas a tax for all oil and gas produced each calendar year from each lease or property in the state, less any oil and gas the ownership or right to which is exempt from taxation or constitutes a landowner's royalty interest. Except as otherwise provided under (f), (j), (k), and (o) of this section, for

(1) oil and gas produced from a lease or property containing land that, as of December 31, 2010, was or had previously been within a unit or in commercial production, the tax is equal to [THE SUM OF

(1)] the annual production tax value of the taxable oil and gas as calculated under AS 43.55.160(a)(1) multiplied by the tax rate calculated [25 PERCENT; AND

(2) THE SUM, OVER ALL MONTHS OF THE CALENDAR YEAR, OF THE TAX AMOUNTS DETERMINED] under (g)(1) [(g)] of this section;

(2) other oil and gas, the tax is equal to the annual production tax value of the taxable oil and gas as calculated under AS 43.55.160(a)(1) multiplied by the tax rate calculated under (g)(2) of this section.

* **Sec. 7.** AS 43.55.011(f) is amended to read:

(f) The levy of tax under this section for oil and gas produced north of 68 degrees North latitude, other than oil and gas production subject to (i) of this section and gas subject to (o) of this section, may not be less than

(1) four percent of the gross value at the point of production when the average price per barrel for Alaska North Slope crude oil for sale on the United States West Coast during the calendar year for which the tax is due is more than \$20 [\$25];

(2) three percent of the gross value at the point of production when the average price per barrel for Alaska North Slope crude oil for sale on the United States West Coast during the calendar year for which the tax is due is over \$17.50 [\$20] but not over \$20 [\$25];

(3) two percent of the gross value at the point of production when the

average price per barrel for Alaska North Slope crude oil for sale on the United States West Coast during the calendar year for which the tax is due is over \$15 [\$17.50] but not over \$17.50 [\$20];

(4) one percent of the gross value at the point of production when the average price per barrel for Alaska North Slope crude oil for sale on the United States West Coast during the calendar year for which the tax is due is over \$12.50 [\$15] but not over \$15 [\$17.50]; or

(5) zero percent of the gross value at the point of production when the average price per barrel for Alaska North Slope crude oil for sale on the United States West Coast during the calendar year for which the tax is due is \$12.50 [\$15] or less.

* **Sec. 8.** AS 43.55.011(g) is repealed and reenacted to read:

(g) The tax rate for a calendar year for

(1) purposes of (e)(1) of this section is equal to the percentage rate obtained by performing the following calculations:

(A) calculating for the calendar year the producer's average annual production tax value under AS 43.55.160(a)(1) per BTU equivalent barrel of the taxable oil and gas subject to (e)(1) of this section;

(B) calculating the fraction, if any, of that average annual production tax value per BTU equivalent barrel that falls within each range of incremental production tax value per BTU equivalent barrel in the table set out in (D) of this paragraph;

(C) multiplying each of those fractions by the corresponding incremental rate in the table set out in (D) of this paragraph; and

(D) adding together the products calculated under (C) of this paragraph; the table of incremental values and incremental rates is as follows:

Incremental Production Tax Value per

BTU Equivalent Barrel	Incremental Rate
Not more than \$30.00	25.0 percent
Above \$30.00 and not more than \$42.50	27.5 percent
Above \$42.50 and not more than \$55.00	32.5 percent
Above \$55.00 and not more than \$67.50	37.5 percent

Above \$67.50 and not more than \$80.00	42.5 percent
Above \$80.00 and not more than \$92.50	47.5 percent
Above \$92.50	50.0 percent

(2) purposes of (e)(2) of this section is equal to the percentage rate obtained by performing the following calculations:

(A) calculating for the calendar year the producer's average annual production tax value under AS 43.55.160(a)(1) per BTU equivalent barrel of the taxable oil and gas not subject to (e)(1) of this section;

(B) calculating the fraction, if any, of that average annual production tax value per BTU equivalent barrel that falls within each range of incremental production tax value per BTU equivalent barrel in the table set out in (D) of this paragraph;

(C) multiplying each of those fractions by the corresponding incremental rate in the table set out in (D) of this paragraph; and

(D) adding together the products calculated under (C) of this paragraph; the table of incremental values and incremental rates is as follows:

Incremental Production Tax Value per BTU Equivalent Barrel	Incremental Rate
Not more than \$30.00	15.0 percent
Above \$30.00 and not more than \$42.50	17.5 percent
Above \$42.50 and not more than \$55.00	22.5 percent
Above \$55.00 and not more than \$67.50	27.5 percent
Above \$67.50 and not more than \$80.00	32.5 percent
Above \$80.00 and not more than \$92.50	37.5 percent
Above \$92.50	40.0 percent

* **Sec. 9.** AS 43.55.020(a) is repealed and reenacted to read:

(a) For a calendar year, a producer subject to tax under AS 43.55.011(e) - (i) shall pay the tax as follows:

(1) an installment payment of the estimated tax levied by AS 43.55.011(e), net of any tax credits applied as allowed by law, is due for each month of the calendar year on the last day of the following month; except as otherwise

provided under (2) of this subsection, the amount of the installment payment is the sum of the following amounts in (A) - (D) of this paragraph, less 1/12 of the tax credits that are allowed by law to be applied against the tax levied by AS 43.55.011(e) for the calendar year, but the amount of the installment payment may not be less than zero:

(A) the sum of the monthly production tax values for the month under AS 43.55.160(a)(2) for the categories described in AS 43.55.160(a)(1)(B) and (F), multiplied by the tax rate calculated for the calendar year of production under AS 43.55.011(g)(1);

(B) the greater of

(i) the sum of the product of the monthly production tax value for the month under AS 43.55.160(a)(2) for the category described in AS 43.55.160(a)(1)(A) multiplied by the tax rate calculated for the calendar year of production under AS 43.55.011(g)(1), and the product of the monthly production tax value for the month under AS 43.55.160(a)(2) for the category described in AS 43.55.160(a)(1)(G) multiplied by the tax rate calculated for the calendar year of production under AS 43.55.011(g)(2); or

(ii) zero percent, one percent, two percent, three percent, or four percent, as applicable under AS 43.55.011(f), of the gross value at the point of production of the oil and gas, other than gas subject to AS 43.55.011(o), produced during the month from all leases or properties that include land north of 68 degrees North latitude; for purposes of this sub-subparagraph, the applicable percentage under AS 43.55.011(f) is determined by substituting in AS 43.55.011(f)(1) - (5) the phrase "month for which the installment payment is calculated" in place of the phrase "calendar year for which the tax is due";

(C) for oil produced during the month from each lease or property subject to AS 43.55.011(k), for gas produced during the month from each lease or property subject to AS 43.55.011(j), and for gas subject to

AS 43.55.011(o) produced during the month from each lease or property, the monthly production tax value for the month calculated under AS 43.55.160(a)(2) for the categories described in AS 43.55.160(a)(1)(C), (D), or (E), respectively, multiplied by

(i) the tax rate calculated for the calendar year of production under AS 43.55.011(g)(1), for a lease or property subject to AS 43.55.011(e)(1); or

(ii) the tax rate calculated for the calendar year of production under AS 43.55.011(g)(2), for a lease or property not subject to AS 43.55.011(e)(1); and

(D) the sum of the monthly production tax values for the month under AS 43.55.160(a)(2) for the categories described in AS 43.55.160(a)(1)(H) and (I), multiplied by the tax rate calculated for the calendar year of production under AS 43.55.011(g)(2);

(2) an amount calculated under (1)(C) of this subsection for oil or gas produced from a particular lease or property may not exceed the product obtained by carrying out the calculation set out in AS 43.55.011(k)(1) or (2), as applicable, for oil, or set out in AS 43.55.011(j)(1) or (2) or 43.55.011(o), as applicable, for gas, but substituting in AS 43.55.011(k)(1)(A) or (2)(A), as applicable, the amount of taxable oil produced during the month for the amount of taxable oil produced during the calendar year and substituting in AS 43.55.011(j)(1)(A) or (2)(A) or 43.55.011(o), as applicable, the amount of taxable gas produced during the month for the amount of taxable gas produced during the calendar year;

(3) an installment payment of the estimated tax levied by AS 43.55.011(i) for each lease or property is due for each month of the calendar year on the last day of the following month; the amount of the installment payment is the sum of

(A) the applicable tax rate for oil provided under AS 43.55.011(i), multiplied by the gross value at the point of production of the oil taxable under AS 43.55.011(i) and produced from the lease or property during the month; and

(B) the applicable tax rate for gas provided under AS 43.55.011(i), multiplied by the gross value at the point of production of the gas taxable under AS 43.55.011(i) and produced from the lease or property during the month;

(4) any amount of tax levied by AS 43.55.011(e) or (i), net of any credits applied as allowed by law, that exceeds the total of the amounts due as installment payments of estimated tax is due on March 31 of the year following the calendar year of production.

* **Sec. 10.** AS 43.55.020(g) is amended to read:

(g) Notwithstanding any contrary provision of AS 43.05.225, an unpaid amount of an installment payment required under (a)(1) - (3) of this section that is not paid when due bears interest (1) at the rate provided for an underpayment under 26 U.S.C. 6621 (Internal Revenue Code), as amended, compounded daily, from the date the installment payment is due until March 31 following the calendar year of production, and (2) as provided for a delinquent tax under AS 43.05.225(1) [AS 43.05.225] after that March 31. Interest accrued under (1) of this subsection that remains unpaid after that March 31 is treated as an addition to tax that bears interest under (2) of this subsection. An unpaid amount of tax due under (a)(4) of this section that is not paid when due bears interest as provided for a delinquent tax under AS 43.05.225(1) [AS 43.05.225].

* **Sec. 11.** AS 43.55.023(a) is amended to read:

(a) A producer or explorer may take a tax credit for a qualified capital expenditure as follows:

(1) notwithstanding that a qualified capital expenditure may be a deductible lease expenditure for purposes of calculating the production tax value of oil and gas under AS 43.55.160(a), unless a credit for that expenditure is taken under AS 38.05.180(i), AS 41.09.010, AS 43.20.043, or AS 43.55.025, a producer or explorer that incurs a qualified capital expenditure may also elect to apply a tax credit against a tax levied by AS 43.55.011(e) in the amount of 20 percent of that expenditure; [HOWEVER, NOT MORE THAN HALF OF THE TAX CREDIT MAY BE APPLIED FOR A SINGLE CALENDAR YEAR;]

(2) a producer or explorer may take a credit for a qualified capital expenditure incurred in connection with geological or geophysical exploration or in connection with an exploration well only if the producer or explorer

(A) agrees, in writing, to the applicable provisions of AS 43.55.025(f)(2);

(B) submits to the Department of Natural Resources all data that would be required to be submitted under AS 43.55.025(f)(2).

* **Sec. 12.** AS 43.55.023(d) is amended to read:

(d) Except as limited by (i) of this section, a person that is entitled to take a tax credit under this section that wishes to transfer the unused credit to another person or obtain a cash payment under AS 43.55.028 may apply to the department for a transferable tax credit certificate [CERTIFICATES]. An application under this subsection must be in a form prescribed by the department and must include supporting information and documentation that the department reasonably requires. The department shall grant or deny an application, or grant an application as to a lesser amount than that claimed and deny it as to the excess, not later than 120 days after the latest of (1) March 31 of the year following the calendar year in which the qualified capital expenditure, well lease expenditure, or carried-forward annual loss for which the credit is claimed was incurred; (2) the date the statement required under AS 43.55.030(a) or (e) was filed for the calendar year in which the qualified capital expenditure, well lease expenditure, or carried-forward annual loss for which the credit is claimed was incurred; or (3) the date the application was received by the department. If, based on the information then available to it, the department is reasonably satisfied that the applicant is entitled to a credit, the department shall issue the applicant a [TWO] transferable tax credit certificate for [CERTIFICATES, EACH FOR HALF OF] the amount of the credit. [THE CREDIT SHOWN ON ONE OF THE TWO CERTIFICATES IS AVAILABLE FOR IMMEDIATE USE. THE CREDIT SHOWN ON THE SECOND OF THE TWO CERTIFICATES MAY NOT BE APPLIED AGAINST A TAX FOR A CALENDAR YEAR EARLIER THAN THE CALENDAR YEAR FOLLOWING THE CALENDAR YEAR IN WHICH THE CERTIFICATE IS ISSUED, AND THE CERTIFICATE MUST CONTAIN A

CONSPICUOUS STATEMENT TO THAT EFFECT.] A certificate issued under this subsection does not expire.

* **Sec. 13.** AS 43.55.023(g) is amended to read:

(g) The issuance of a transferable tax credit certificate under (d) or (m) of this section or the purchase of a certificate under AS 43.55.028 does not limit the department's ability to later audit a tax credit claim to which the certificate relates or to adjust the claim if the department determines, as a result of the audit, that the applicant was not entitled to the amount of the credit for which the certificate was issued. The tax liability of the applicant under AS 43.55.011(e) and 43.55.017 - 43.55.180 is increased by the amount of the credit that exceeds that to which the applicant was entitled, or the applicant's available valid outstanding credits applicable against the tax levied by AS 43.55.011(e) are reduced by that amount. If the applicant's tax liability is increased under this subsection, the increase bears interest under AS 43.05.225(1) [AS 43.05.225] from the date the transferable tax credit certificate was issued. For purposes of this subsection, an applicant that is an explorer is considered a producer subject to the tax levied by AS 43.55.011(e).

* **Sec. 14.** AS 43.55.023(g) is amended to read:

(g) The issuance of a transferable tax credit certificate under (d) or **former** (m) of this section or the purchase of a certificate under AS 43.55.028 does not limit the department's ability to later audit a tax credit claim to which the certificate relates or to adjust the claim if the department determines, as a result of the audit, that the applicant was not entitled to the amount of the credit for which the certificate was issued. The tax liability of the applicant under AS 43.55.011(e) and 43.55.017 - 43.55.180 is increased by the amount of the credit that exceeds that to which the applicant was entitled, or the applicant's available valid outstanding credits applicable against the tax levied by AS 43.55.011(e) are reduced by that amount. If the applicant's tax liability is increased under this subsection, the increase bears interest under AS 43.05.225(1) from the date the transferable tax credit certificate was issued. For purposes of this subsection, an applicant that is an explorer is considered a producer subject to the tax levied by AS 43.55.011(e).

* **Sec. 15.** AS 43.55.023(l) is amended to read:

(l) A producer or explorer may apply for a tax credit for a well lease expenditure incurred [IN THE STATE SOUTH OF 68 DEGREES NORTH LATITUDE] after **December 31, 2011** [JUNE 30, 2010], as follows:

(1) notwithstanding that a well lease expenditure [INCURRED IN THE STATE SOUTH OF 68 DEGREES NORTH LATITUDE] may be a deductible lease expenditure for purposes of calculating the production tax value of oil and gas under AS 43.55.160(a), unless a credit for that expenditure is taken under (a) of this section, AS 38.05.180(i), AS 41.09.010, AS 43.20.043, or AS 43.55.025, a producer or explorer that incurs a well lease expenditure [IN THE STATE SOUTH OF 68 DEGREES NORTH LATITUDE] may elect to apply a tax credit against a tax levied by AS 43.55.011(e) in the amount of 40 percent of that expenditure; [A TAX CREDIT UNDER THIS PARAGRAPH MAY BE APPLIED FOR A SINGLE CALENDAR YEAR;]

(2) a producer or explorer may take a credit for a well lease expenditure incurred [IN THE STATE SOUTH OF 68 DEGREES NORTH LATITUDE] in connection with geological or geophysical exploration or in connection with an exploration well only if the producer or explorer

(A) agrees, in writing, to the applicable provisions of AS 43.55.025(f)(2); and

(B) submits to the Department of Natural Resources all data that would be required to be submitted under AS 43.55.025(f)(2).

* **Sec. 16.** AS 43.55.023(n) is amended to read:

(n) For the purposes of (l) [AND (m)] of this section, a well lease expenditure [INCURRED IN THE STATE SOUTH OF 68 DEGREES NORTH LATITUDE] is a lease expenditure that is

(1) directly related to an exploration well, a stratigraphic test well, a producing well, or an injection well other than a disposal well, [LOCATED IN THE STATE SOUTH OF 68 DEGREES NORTH LATITUDE,] if the expenditure is a qualified capital expenditure and an intangible drilling and development cost authorized under 26 U.S.C. (Internal Revenue Code), as amended, and 26 C.F.R. 1.612-4, regardless of the elections made under 26 U.S.C. 263(c); in this paragraph, an

expenditure directly related to a well includes an expenditure for well sidetracking, well deepening, well completion or recompletion, or well workover, regardless of whether the well is or has been a producing well; or

(2) an expense for seismic work conducted within the boundaries of a production or exploration unit.

* **Sec. 17.** AS 43.55.028(e) is amended to read:

(e) The department, on the written application of a person to whom a transferable tax credit certificate has been issued under AS 43.55.023(d) or **former** (m) or to whom a production tax credit certificate has been issued under AS 43.55.025(f), may use available money in the oil and gas tax credit fund to purchase, in whole or in part, the certificate if the department finds that

(1) the calendar year of the purchase is not earlier than the first calendar year for which the credit shown on the certificate would otherwise be allowed to be applied against a tax;

(2) **[REPEALED.**

(3) **REPEALED.**

(4)] the applicant does not have an outstanding liability to the state for unpaid delinquent taxes under this title;

(3) [(5)] the applicant's total tax liability under AS 43.55.011(e), after application of all available tax credits, for the calendar year in which the application is made is zero;

(4) [(6)] the applicant's average daily production of oil and gas taxable under AS 43.55.011(e) during the calendar year preceding the calendar year in which the application is made was not more than 50,000 BTU equivalent barrels; and

(5) [(7)] the purchase is consistent with this section and regulations adopted under this section.

* **Sec. 18.** AS 43.55.028(g) is amended to read:

(g) The department may adopt regulations to carry out the purposes of this section, including standards and procedures to allocate available money among applications for purchases under this chapter and claims for refunds under AS 43.20.046 when the total amount of the applications for purchase and claims for

refund exceed the amount of available money in the fund. The regulations adopted by the department may not, when allocating available money in the fund under this section, distinguish an application for the purchase of a credit certificate issued under former AS 43.55.023(m) or a claim for refund under AS 43.20.046.

* **Sec. 19.** AS 43.55.075(a) is amended to read:

(a) Except as provided in AS 43.05.260(c), the amount of a tax imposed by this chapter must be assessed within four [SIX] years after the return was filed.

* **Sec. 20.** AS 43.55.160(a) is repealed and reenacted to read:

(a) Except as provided in (b) of this section, for the purposes of

(1) AS 43.55.011(e), the annual production tax value of taxable oil, gas, or oil and gas produced by a producer during a calendar year, in a given category for which a separate production tax value is required to be calculated under this paragraph, is equal to the gross value at the point of production of that oil, gas, or oil and gas, respectively, taxable under AS 43.55.011(e), less the producer's lease expenditures under AS 43.55.165 for the calendar year that are applicable to the oil, gas, or oil and gas, respectively, in that category produced by the producer during the calendar year, as adjusted under AS 43.55.170; a separate annual production tax value must be calculated for

(A) oil and gas, other than gas produced before 2022 and used in the state, produced in aggregate from all leases or properties in the state that include land north of 68 degrees North latitude and are subject to AS 43.55.011(e)(1);

(B) oil and gas, other than gas produced before 2022 and used in the state, produced in aggregate from all leases or properties in the state that are subject to AS 43.55.011(e)(1) and are described in AS 43.55.024(a), during a calendar year before or during the last calendar year under AS 43.55.024(b) for which the producer could take a tax credit under AS 43.55.024(a);

(C) oil produced before 2022 from each lease or property in the Cook Inlet sedimentary basin;

(D) gas produced before 2022 from each lease or property in the Cook Inlet sedimentary basin;

1 (E) gas produced before 2022 from each lease or property in
2 the state outside the Cook Inlet sedimentary basin and used in the state;

3 (F) oil and gas produced in aggregate from all leases or
4 properties in the state that do not include land north of 68 degrees North
5 latitude and are subject to AS 43.55.011(e)(1); this subparagraph does not
6 apply to

7 (i) gas that is produced before 2022 and used in the
8 state;

9 (ii) oil or gas that is produced before 2022 from a lease
10 or property in the Cook Inlet sedimentary basin;

11 (iii) oil or gas that is produced from a lease or property
12 described in AS 43.55.024(a) during a calendar year before or during
13 the last calendar year under AS 43.55.024(b) for which the producer
14 could take a tax credit under AS 43.55.024(a);

15 (G) oil and gas, other than gas produced before 2022 and used
16 in the state, produced in aggregate from all leases or properties in the state that
17 include land north of 68 degrees North latitude and are not subject to
18 AS 43.55.011(e)(1);

19 (H) oil and gas, other than gas produced before 2022 and used
20 in the state, produced in aggregate from all leases or properties in the state that
21 are not subject to AS 43.55.011(e)(1) and are described in AS 43.55.024(a),
22 during a calendar year before or during the last calendar year under
23 AS 43.55.024(b) for which the producer could take a tax credit under
24 AS 43.55.024(a);

25 (I) oil and gas produced in aggregate from all leases or
26 properties in the state that do not include land north of 68 degrees North
27 latitude and are not subject to AS 43.55.011(e)(1); this subparagraph does not
28 apply to

29 (i) gas that is produced before 2022 and used in the
30 state;

31 (ii) oil or gas that is produced before 2022 from a lease

or property in the Cook Inlet sedimentary basin;

(iii) oil or gas that is produced from a lease or property described in AS 43.55.024(a) during a calendar year before or during the last calendar year under AS 43.55.024(b) for which the producer could take a tax credit under AS 43.55.024(a);

(2) AS 43.55.020(a), the monthly production tax value of taxable oil, gas, or oil and gas produced by a producer during a month, in a given category for which a separate production tax value is required to be calculated under this paragraph, is equal to the gross value at the point of production of that oil, gas, or oil and gas, respectively, taxable under AS 43.55.011(e), less 1/12 of the producer's lease expenditures under AS 43.55.165 for the calendar year that are applicable to the oil, gas, or oil and gas, respectively, in that category produced by the producer during the calendar year, as adjusted under AS 43.55.170; a separate monthly production tax value must be calculated for each of the categories for which a separate annual production tax value is required to be calculated under (1) of this subsection.

* **Sec. 21.** AS 43.56.160 is amended to read:

Sec. 43.56.160. Interest and penalty. When the tax levied by AS 43.56.010(a) becomes delinquent, a penalty of 10 percent shall be added. Interest on the delinquent taxes, exclusive of penalty, shall be assessed at the rate specified in AS 43.05.225(1) [A RATE OF EIGHT PERCENT A YEAR].

* **Sec. 22.** AS 43.77.020(d) is amended to read:

(d) A person subject to the tax under this chapter shall make quarterly payments of the tax estimated to be due for the year, as required under regulations adopted by the department. A taxpayer will be subject to an estimated tax penalty, determined by applying the interest rate specified in AS 43.05.225(1) [AS 43.05.225] to the underpayment for each quarter, unless the taxpayer makes estimated tax payments in equal installments that total either

(1) at least 90 percent of the taxpayer's tax liability under this chapter for the tax year; or

(2) at least 100 percent of the taxpayer's tax liability under this chapter for the prior tax year.

1 * **Sec. 23.** AS 43.90.430 is amended to read:

2 **Sec. 43.90.430. Interest.** When a payment due to the state under this chapter
3 becomes delinquent, the payment bears interest at the rate applicable to a delinquent
4 tax under AS 43.05.225(1) [AS 43.05.225].

5 * **Sec. 24.** AS 43.55.023(m) is repealed.

6 * **Sec. 25.** The uncodified law of the State of Alaska is amended by adding a new section to
7 read:

8 APPLICABILITY. (a) Sections 11, 12, 15, and 16 of this Act apply to expenditures
9 incurred after December 31, 2011.

10 (b) Sections 6 - 9 and 20 of this Act apply to oil and gas produced after December 31,
11 2012.

12 (c) Section 19 of this Act applies to any tax liability for the production of oil and gas
13 after December 31, 2013.

14 * **Sec. 26.** The uncodified law of the State of Alaska is amended by adding a new section to
15 read:

16 TRANSITION: REGULATIONS. The Department of Revenue may proceed to adopt
17 regulations to implement this Act. The regulations take effect under AS 44.62 (Administrative
18 Procedure Act), but not before the effective date of the provision of this Act implemented by
19 the regulation.

20 * **Sec. 27.** Sections 11, 12, 14 - 18, 24, and 25(a) of this Act take effect January 1, 2012.

21 * **Sec. 28.** Sections 6 - 9, 20, and 25(b) of this Act take effect January 1, 2013.

22 * **Sec. 29.** Sections 19 and 25(c) of this Act take effect January 1, 2014.

23 * **Sec. 30.** Except as provided in secs. 27 - 29 of this Act, this Act takes effect July 1, 2011.

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Governor Sean Parnell
STATE OF ALASKA

January 14, 2011

The Honorable Mike Chenault
Speaker of the House
Alaska State Legislature
State Capitol, Room 208
Juneau, AK 99801-1182

Dear Speaker Chenault,

Oil production in Alaska remains the backbone of our economy. As oil production declines and as the federal government forbids multiple development opportunities we must better incentivize development of state lands. To that end, under the authority of Article III, Section 18, of the Alaska Constitution, I am transmitting a bill to make Alaska more competitive as an oil producing state by proposing amendments to Alaska's oil and gas production tax.

The bill would provide tax incentives and credits for the oil and gas industry to increase exploration for, and development of, Alaska's oil and gas resources at any price range. We must remain focused on getting more oil into the pipeline, and creating jobs for Alaskans.

The bill accomplishes six primary goals: (1) encourages development of new, currently undeveloped leases or properties; (2) encourages investment in exploration, development, and production at all price ranges; (3) strengthens the minimum tax; (4) extends tax incentives to North Slope activities and allows producers to apply tax credits in one year; (5) limits the time for assessment of additional production taxes; and (6) reduces the interest rate on delinquent taxes and refunds. These changes would ensure the State continues to receive reasonable revenue and establish a more competitive investment climate for job creation.

These amendments to Alaska's oil tax regime will foster new production sources to stem the decline in North Slope production. More oil means more jobs for Alaskans, more long-term revenue to the State, and lower Trans-Alaska Pipeline System tariffs per barrel.

I urge your prompt and favorable action on this measure.

Sincerely,

A handwritten signature in blue ink, reading "Sean Parnell".

Sean Parnell
Governor

Enclosure

HOUSE BILL NO.

IN THE LEGISLATURE OF THE STATE OF ALASKA

TWENTY-SEVENTH LEGISLATURE - FIRST SESSION

BY THE HOUSE RULES COMMITTEE BY REQUEST OF THE GOVERNOR

Introduced:

Referred:

A BILL

FOR AN ACT ENTITLED

1 "An Act relating to the interest rate applicable to certain amounts due for fees, taxes,
2 and payments made and property delivered to the Department of Revenue; relating to
3 the oil and gas production tax rate; relating to monthly installment payments of
4 estimated oil and gas production tax; relating to oil and gas production tax credits for
5 certain expenditures, including qualified capital credits for exploration, development,
6 and production; relating to the limitation on assessment of oil and gas production taxes;
7 relating to the determination of oil and gas production tax values; making conforming
8 amendments; and providing for an effective date."

9 **BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF ALASKA:**

10 * **Section 1.** AS 05.15.095(c) is amended to read:

11 (c) A delinquent fee bears interest at the rate set by AS 43.05.225(2)

12 [AS 43.05.225].

1 * **Sec. 2.** AS 34.45.470(a) is amended to read:

2 (a) A person who fails to pay or deliver property within the time prescribed by
3 this chapter may be required to pay to the department interest at the annual rate
4 calculated under AS 43.05.225(2) [AS 43.05.225] on the property or the value of it
5 from the date the property should have been paid or delivered.

6 * **Sec. 3.** AS 43.05.225 is amended to read:

7 **Sec. 43.05.225. Interest.** Unless otherwise provided,

8 (1) when a tax levied in this title becomes delinquent, it bears interest
9 in a calendar quarter at the rate of three [FIVE] percentage points above the annual
10 rate charged member banks for advances by the 12th Federal Reserve District as of the
11 first day of that calendar quarter, or at the annual rate of 11 percent, whichever is
12 lesser [GREATER], compounded quarterly as of the last day of that quarter;

13 (2) the interest rate is 12 percent a year for

14 (A) delinquent fees payable under AS 05.15.095(c); and

15 (B) [REPEALED. AND

16 (C)] unclaimed property that is not timely paid or delivered, as
17 allowed by AS 34.45.470(a).

18 * **Sec. 4.** AS 43.20.046(i) is amended to read:

19 (i) The issuance of a refund under this section does not limit the department's
20 ability to later audit or adjust the claim if the department determines, as a result of the
21 audit, that the person that claimed the credit was not entitled to the amount of the
22 credit. The tax liability of the person receiving the credit under this chapter is
23 increased by the amount of the credit that exceeds that to which the person was
24 entitled. If the tax liability is increased under this subsection, the increase bears
25 interest under AS 43.05.225(1) [AS 43.05.225] from the date the refund was issued.

26 * **Sec. 5.** AS 43.50.570 is amended to read:

27 **Sec. 43.50.570. Interest.** A licensee who fails to pay an amount due for the
28 purchase of stamps within the time required

29 (1) is considered to have failed to pay the cigarette taxes due under this
30 chapter; and

31 (2) shall pay interest at the rate established under AS 43.05.225(1)

[AS 43.05.225] from the date on which the amount became due until the date of payment.

* **Sec. 6.** AS 43.55.011(e) is amended to read:

(e) There is levied on the producer of oil or gas a tax for all oil and gas produced each calendar year from each lease or property in the state, less any oil and gas the ownership or right to which is exempt from taxation or constitutes a landowner's royalty interest. Except as otherwise provided under (f), (j), (k), and (o) of this section, for

(1) oil and gas produced from a lease or property containing land that, as of December 31, 2010, was or had previously been within a unit or in commercial production, the tax is equal to [THE SUM OF

(1)] the annual production tax value of the taxable oil and gas as calculated under AS 43.55.160(a)(1) multiplied by the tax rate calculated [25 PERCENT; AND

(2) THE SUM, OVER ALL MONTHS OF THE CALENDAR YEAR, OF THE TAX AMOUNTS DETERMINED] under (g)(1) [(g)] of this section;

(2) other oil and gas, the tax is equal to the annual production tax value of the taxable oil and gas as calculated under AS 43.55.160(a)(1) multiplied by the tax rate calculated under (g)(2) of this section.

* **Sec. 7.** AS 43.55.011(f) is amended to read:

(f) The levy of tax under this section for oil and gas produced north of 68 degrees North latitude, other than oil and gas production subject to (i) of this section and gas subject to (o) of this section, may not be less than

(1) four percent of the gross value at the point of production when the average price per barrel for Alaska North Slope crude oil for sale on the United States West Coast during the calendar year for which the tax is due is more than \$20 [\$25];

(2) three percent of the gross value at the point of production when the average price per barrel for Alaska North Slope crude oil for sale on the United States West Coast during the calendar year for which the tax is due is over \$17.50 [\$20] but not over \$20 [\$25];

(3) two percent of the gross value at the point of production when the

average price per barrel for Alaska North Slope crude oil for sale on the United States West Coast during the calendar year for which the tax is due is over \$15 [\$17.50] but not over \$17.50 [\$20];

(4) one percent of the gross value at the point of production when the average price per barrel for Alaska North Slope crude oil for sale on the United States West Coast during the calendar year for which the tax is due is over \$12.50 [\$15] but not over \$15 [\$17.50]; or

(5) zero percent of the gross value at the point of production when the average price per barrel for Alaska North Slope crude oil for sale on the United States West Coast during the calendar year for which the tax is due is \$12.50 [\$15] or less.

* **Sec. 8.** AS 43.55.011(g) is repealed and reenacted to read:

(g) The tax rate for a calendar year for

(1) purposes of (e)(1) of this section is equal to the percentage rate obtained by performing the following calculations:

(A) calculating for the calendar year the producer's average annual production tax value under AS 43.55.160(a)(1) per BTU equivalent barrel of the taxable oil and gas subject to (e)(1) of this section;

(B) calculating the fraction, if any, of that average annual production tax value per BTU equivalent barrel that falls within each range of incremental production tax value per BTU equivalent barrel in the table set out in (D) of this paragraph;

(C) multiplying each of those fractions by the corresponding incremental rate in the table set out in (D) of this paragraph; and

(D) adding together the products calculated under (C) of this paragraph; the table of incremental values and incremental rates is as follows:

Incremental Production Tax Value per

BTU Equivalent Barrel	Incremental Rate
Not more than \$30.00	25.0 percent
Above \$30.00 and not more than \$42.50	27.5 percent
Above \$42.50 and not more than \$55.00	32.5 percent
Above \$55.00 and not more than \$67.50	37.5 percent

Above \$67.50 and not more than \$80.00	42.5 percent
Above \$80.00 and not more than \$92.50	47.5 percent
Above \$92.50	50.0 percent

(2) purposes of (e)(2) of this section is equal to the percentage rate obtained by performing the following calculations:

(A) calculating for the calendar year the producer's average annual production tax value under AS 43.55.160(a)(1) per BTU equivalent barrel of the taxable oil and gas not subject to (e)(1) of this section;

(B) calculating the fraction, if any, of that average annual production tax value per BTU equivalent barrel that falls within each range of incremental production tax value per BTU equivalent barrel in the table set out in (D) of this paragraph;

(C) multiplying each of those fractions by the corresponding incremental rate in the table set out in (D) of this paragraph; and

(D) adding together the products calculated under (C) of this paragraph; the table of incremental values and incremental rates is as follows:

Incremental Production Tax Value per BTU Equivalent Barrel	Incremental Rate
Not more than \$30.00	15.0 percent
Above \$30.00 and not more than \$42.50	17.5 percent
Above \$42.50 and not more than \$55.00	22.5 percent
Above \$55.00 and not more than \$67.50	27.5 percent
Above \$67.50 and not more than \$80.00	32.5 percent
Above \$80.00 and not more than \$92.50	37.5 percent
Above \$92.50	40.0 percent

* **Sec. 9.** AS 43.55.020(a) is repealed and reenacted to read:

(a) For a calendar year, a producer subject to tax under AS 43.55.011(e) - (i) shall pay the tax as follows:

(1) an installment payment of the estimated tax levied by AS 43.55.011(e), net of any tax credits applied as allowed by law, is due for each month of the calendar year on the last day of the following month; except as otherwise

provided under (2) of this subsection, the amount of the installment payment is the sum of the following amounts in (A) - (D) of this paragraph, less 1/12 of the tax credits that are allowed by law to be applied against the tax levied by AS 43.55.011(e) for the calendar year, but the amount of the installment payment may not be less than zero:

(A) the sum of the monthly production tax values for the month under AS 43.55.160(a)(2) for the categories described in AS 43.55.160(a)(1)(B) and (F), multiplied by the tax rate calculated for the calendar year of production under AS 43.55.011(g)(1);

(B) the greater of

(i) the sum of the product of the monthly production tax value for the month under AS 43.55.160(a)(2) for the category described in AS 43.55.160(a)(1)(A) multiplied by the tax rate calculated for the calendar year of production under AS 43.55.011(g)(1), and the product of the monthly production tax value for the month under AS 43.55.160(a)(2) for the category described in AS 43.55.160(a)(1)(G) multiplied by the tax rate calculated for the calendar year of production under AS 43.55.011(g)(2); or

(ii) zero percent, one percent, two percent, three percent, or four percent, as applicable under AS 43.55.011(f), of the gross value at the point of production of the oil and gas, other than gas subject to AS 43.55.011(o), produced during the month from all leases or properties that include land north of 68 degrees North latitude; for purposes of this sub-subparagraph, the applicable percentage under AS 43.55.011(f) is determined by substituting in AS 43.55.011(f)(1) - (5) the phrase "month for which the installment payment is calculated" in place of the phrase "calendar year for which the tax is due";

(C) for oil produced during the month from each lease or property subject to AS 43.55.011(k), for gas produced during the month from each lease or property subject to AS 43.55.011(j), and for gas subject to

AS 43.55.011(o) produced during the month from each lease or property, the monthly production tax value for the month calculated under AS 43.55.160(a)(2) for the categories described in AS 43.55.160(a)(1)(C), (D), or (E), respectively, multiplied by

(i) the tax rate calculated for the calendar year of production under AS 43.55.011(g)(1), for a lease or property subject to AS 43.55.011(e)(1); or

(ii) the tax rate calculated for the calendar year of production under AS 43.55.011(g)(2), for a lease or property not subject to AS 43.55.011(e)(1); and

(D) the sum of the monthly production tax values for the month under AS 43.55.160(a)(2) for the categories described in AS 43.55.160(a)(1)(H) and (I), multiplied by the tax rate calculated for the calendar year of production under AS 43.55.011(g)(2);

(2) an amount calculated under (1)(C) of this subsection for oil or gas produced from a particular lease or property may not exceed the product obtained by carrying out the calculation set out in AS 43.55.011(k)(1) or (2), as applicable, for oil, or set out in AS 43.55.011(j)(1) or (2) or 43.55.011(o), as applicable, for gas, but substituting in AS 43.55.011(k)(1)(A) or (2)(A), as applicable, the amount of taxable oil produced during the month for the amount of taxable oil produced during the calendar year and substituting in AS 43.55.011(j)(1)(A) or (2)(A) or 43.55.011(o), as applicable, the amount of taxable gas produced during the month for the amount of taxable gas produced during the calendar year;

(3) an installment payment of the estimated tax levied by AS 43.55.011(i) for each lease or property is due for each month of the calendar year on the last day of the following month; the amount of the installment payment is the sum of

(A) the applicable tax rate for oil provided under AS 43.55.011(i), multiplied by the gross value at the point of production of the oil taxable under AS 43.55.011(i) and produced from the lease or property during the month; and

(B) the applicable tax rate for gas provided under AS 43.55.011(i), multiplied by the gross value at the point of production of the gas taxable under AS 43.55.011(i) and produced from the lease or property during the month;

(4) any amount of tax levied by AS 43.55.011(e) or (i), net of any credits applied as allowed by law, that exceeds the total of the amounts due as installment payments of estimated tax is due on March 31 of the year following the calendar year of production.

* **Sec. 10.** AS 43.55.020(g) is amended to read:

(g) Notwithstanding any contrary provision of AS 43.05.225, an unpaid amount of an installment payment required under (a)(1) - (3) of this section that is not paid when due bears interest (1) at the rate provided for an underpayment under 26 U.S.C. 6621 (Internal Revenue Code), as amended, compounded daily, from the date the installment payment is due until March 31 following the calendar year of production, and (2) as provided for a delinquent tax under AS 43.05.225(1) [AS 43.05.225] after that March 31. Interest accrued under (1) of this subsection that remains unpaid after that March 31 is treated as an addition to tax that bears interest under (2) of this subsection. An unpaid amount of tax due under (a)(4) of this section that is not paid when due bears interest as provided for a delinquent tax under AS 43.05.225(1) [AS 43.05.225].

* **Sec. 11.** AS 43.55.023(a) is amended to read:

(a) A producer or explorer may take a tax credit for a qualified capital expenditure as follows:

(1) notwithstanding that a qualified capital expenditure may be a deductible lease expenditure for purposes of calculating the production tax value of oil and gas under AS 43.55.160(a), unless a credit for that expenditure is taken under AS 38.05.180(i), AS 41.09.010, AS 43.20.043, or AS 43.55.025, a producer or explorer that incurs a qualified capital expenditure may also elect to apply a tax credit against a tax levied by AS 43.55.011(e) in the amount of 20 percent of that expenditure; [HOWEVER, NOT MORE THAN HALF OF THE TAX CREDIT MAY BE APPLIED FOR A SINGLE CALENDAR YEAR;]

(2) a producer or explorer may take a credit for a qualified capital expenditure incurred in connection with geological or geophysical exploration or in connection with an exploration well only if the producer or explorer

(A) agrees, in writing, to the applicable provisions of AS 43.55.025(f)(2);

(B) submits to the Department of Natural Resources all data that would be required to be submitted under AS 43.55.025(f)(2).

* **Sec. 12.** AS 43.55.023(d) is amended to read:

(d) Except as limited by (i) of this section, a person that is entitled to take a tax credit under this section that wishes to transfer the unused credit to another person or obtain a cash payment under AS 43.55.028 may apply to the department for a transferable tax credit certificate [CERTIFICATES]. An application under this subsection must be in a form prescribed by the department and must include supporting information and documentation that the department reasonably requires. The department shall grant or deny an application, or grant an application as to a lesser amount than that claimed and deny it as to the excess, not later than 120 days after the latest of (1) March 31 of the year following the calendar year in which the qualified capital expenditure, well lease expenditure, or carried-forward annual loss for which the credit is claimed was incurred; (2) the date the statement required under AS 43.55.030(a) or (e) was filed for the calendar year in which the qualified capital expenditure, well lease expenditure, or carried-forward annual loss for which the credit is claimed was incurred; or (3) the date the application was received by the department. If, based on the information then available to it, the department is reasonably satisfied that the applicant is entitled to a credit, the department shall issue the applicant a [TWO] transferable tax credit certificate for [CERTIFICATES, EACH FOR HALF OF] the amount of the credit. [THE CREDIT SHOWN ON ONE OF THE TWO CERTIFICATES IS AVAILABLE FOR IMMEDIATE USE. THE CREDIT SHOWN ON THE SECOND OF THE TWO CERTIFICATES MAY NOT BE APPLIED AGAINST A TAX FOR A CALENDAR YEAR EARLIER THAN THE CALENDAR YEAR FOLLOWING THE CALENDAR YEAR IN WHICH THE CERTIFICATE IS ISSUED, AND THE CERTIFICATE MUST CONTAIN A

1 CONSPICUOUS STATEMENT TO THAT EFFECT.] A certificate issued under this
2 subsection does not expire.

3 * **Sec. 13.** AS 43.55.023(g) is amended to read:

4 (g) The issuance of a transferable tax credit certificate under (d) or (m) of this
5 section or the purchase of a certificate under AS 43.55.028 does not limit the
6 department's ability to later audit a tax credit claim to which the certificate relates or to
7 adjust the claim if the department determines, as a result of the audit, that the applicant
8 was not entitled to the amount of the credit for which the certificate was issued. The
9 tax liability of the applicant under AS 43.55.011(e) and 43.55.017 - 43.55.180 is
10 increased by the amount of the credit that exceeds that to which the applicant was
11 entitled, or the applicant's available valid outstanding credits applicable against the tax
12 levied by AS 43.55.011(e) are reduced by that amount. If the applicant's tax liability is
13 increased under this subsection, the increase bears interest under AS 43.05.225(1)
14 [AS 43.05.225] from the date the transferable tax credit certificate was issued. For
15 purposes of this subsection, an applicant that is an explorer is considered a producer
16 subject to the tax levied by AS 43.55.011(e).

17 * **Sec. 14.** AS 43.55.023(g) is amended to read:

18 (g) The issuance of a transferable tax credit certificate under (d) or **former**
19 (m) of this section or the purchase of a certificate under AS 43.55.028 does not limit
20 the department's ability to later audit a tax credit claim to which the certificate relates
21 or to adjust the claim if the department determines, as a result of the audit, that the
22 applicant was not entitled to the amount of the credit for which the certificate was
23 issued. The tax liability of the applicant under AS 43.55.011(e) and 43.55.017 -
24 43.55.180 is increased by the amount of the credit that exceeds that to which the
25 applicant was entitled, or the applicant's available valid outstanding credits applicable
26 against the tax levied by AS 43.55.011(e) are reduced by that amount. If the
27 applicant's tax liability is increased under this subsection, the increase bears interest
28 under AS 43.05.225(1) from the date the transferable tax credit certificate was issued.
29 For purposes of this subsection, an applicant that is an explorer is considered a
30 producer subject to the tax levied by AS 43.55.011(e).

31 * **Sec. 15.** AS 43.55.023(l) is amended to read:

(l) A producer or explorer may apply for a tax credit for a well lease expenditure incurred [IN THE STATE SOUTH OF 68 DEGREES NORTH LATITUDE] after **December 31, 2011** [JUNE 30, 2010], as follows:

(1) notwithstanding that a well lease expenditure [INCURRED IN THE STATE SOUTH OF 68 DEGREES NORTH LATITUDE] may be a deductible lease expenditure for purposes of calculating the production tax value of oil and gas under AS 43.55.160(a), unless a credit for that expenditure is taken under (a) of this section, AS 38.05.180(i), AS 41.09.010, AS 43.20.043, or AS 43.55.025, a producer or explorer that incurs a well lease expenditure [IN THE STATE SOUTH OF 68 DEGREES NORTH LATITUDE] may elect to apply a tax credit against a tax levied by AS 43.55.011(e) in the amount of 40 percent of that expenditure; [A TAX CREDIT UNDER THIS PARAGRAPH MAY BE APPLIED FOR A SINGLE CALENDAR YEAR;]

(2) a producer or explorer may take a credit for a well lease expenditure incurred [IN THE STATE SOUTH OF 68 DEGREES NORTH LATITUDE] in connection with geological or geophysical exploration or in connection with an exploration well only if the producer or explorer

(A) agrees, in writing, to the applicable provisions of AS 43.55.025(f)(2); and

(B) submits to the Department of Natural Resources all data that would be required to be submitted under AS 43.55.025(f)(2).

* **Sec. 16.** AS 43.55.023(n) is amended to read:

(n) For the purposes of (l) [AND (m)] of this section, a well lease expenditure [INCURRED IN THE STATE SOUTH OF 68 DEGREES NORTH LATITUDE] is a lease expenditure that is

(1) directly related to an exploration well, a stratigraphic test well, a producing well, or an injection well other than a disposal well, [LOCATED IN THE STATE SOUTH OF 68 DEGREES NORTH LATITUDE,] if the expenditure is a qualified capital expenditure and an intangible drilling and development cost authorized under 26 U.S.C. (Internal Revenue Code), as amended, and 26 C.F.R. 1.612-4, regardless of the elections made under 26 U.S.C. 263(c); in this paragraph, an

expenditure directly related to a well includes an expenditure for well sidetracking, well deepening, well completion or recompletion, or well workover, regardless of whether the well is or has been a producing well; or

(2) an expense for seismic work conducted within the boundaries of a production or exploration unit.

* **Sec. 17.** AS 43.55.028(e) is amended to read:

(e) The department, on the written application of a person to whom a transferable tax credit certificate has been issued under AS 43.55.023(d) or **former** (m) or to whom a production tax credit certificate has been issued under AS 43.55.025(f), may use available money in the oil and gas tax credit fund to purchase, in whole or in part, the certificate if the department finds that

(1) the calendar year of the purchase is not earlier than the first calendar year for which the credit shown on the certificate would otherwise be allowed to be applied against a tax;

(2) [REPEALED.

(3) REPEALED.

(4)] the applicant does not have an outstanding liability to the state for unpaid delinquent taxes under this title;

(3) [(5)] the applicant's total tax liability under AS 43.55.011(e), after application of all available tax credits, for the calendar year in which the application is made is zero;

(4) [(6)] the applicant's average daily production of oil and gas taxable under AS 43.55.011(e) during the calendar year preceding the calendar year in which the application is made was not more than 50,000 BTU equivalent barrels; and

(5) [(7)] the purchase is consistent with this section and regulations adopted under this section.

* **Sec. 18.** AS 43.55.028(g) is amended to read:

(g) The department may adopt regulations to carry out the purposes of this section, including standards and procedures to allocate available money among applications for purchases under this chapter and claims for refunds under AS 43.20.046 when the total amount of the applications for purchase and claims for

refund exceed the amount of available money in the fund. The regulations adopted by the department may not, when allocating available money in the fund under this section, distinguish an application for the purchase of a credit certificate issued under former AS 43.55.023(m) or a claim for refund under AS 43.20.046.

* **Sec. 19.** AS 43.55.075(a) is amended to read:

(a) Except as provided in AS 43.05.260(c), the amount of a tax imposed by this chapter must be assessed within four [SIX] years after the return was filed.

* **Sec. 20.** AS 43.55.160(a) is repealed and reenacted to read:

(a) Except as provided in (b) of this section, for the purposes of

(1) AS 43.55.011(e), the annual production tax value of taxable oil, gas, or oil and gas produced by a producer during a calendar year, in a given category for which a separate production tax value is required to be calculated under this paragraph, is equal to the gross value at the point of production of that oil, gas, or oil and gas, respectively, taxable under AS 43.55.011(e), less the producer's lease expenditures under AS 43.55.165 for the calendar year that are applicable to the oil, gas, or oil and gas, respectively, in that category produced by the producer during the calendar year, as adjusted under AS 43.55.170; a separate annual production tax value must be calculated for

(A) oil and gas, other than gas produced before 2022 and used in the state, produced in aggregate from all leases or properties in the state that include land north of 68 degrees North latitude and are subject to AS 43.55.011(e)(1);

(B) oil and gas, other than gas produced before 2022 and used in the state, produced in aggregate from all leases or properties in the state that are subject to AS 43.55.011(e)(1) and are described in AS 43.55.024(a), during a calendar year before or during the last calendar year under AS 43.55.024(b) for which the producer could take a tax credit under AS 43.55.024(a);

(C) oil produced before 2022 from each lease or property in the Cook Inlet sedimentary basin;

(D) gas produced before 2022 from each lease or property in the Cook Inlet sedimentary basin;

1 (E) gas produced before 2022 from each lease or property in
2 the state outside the Cook Inlet sedimentary basin and used in the state;

3 (F) oil and gas produced in aggregate from all leases or
4 properties in the state that do not include land north of 68 degrees North
5 latitude and are subject to AS 43.55.011(e)(1); this subparagraph does not
6 apply to

7 (i) gas that is produced before 2022 and used in the
8 state;

9 (ii) oil or gas that is produced before 2022 from a lease
10 or property in the Cook Inlet sedimentary basin;

11 (iii) oil or gas that is produced from a lease or property
12 described in AS 43.55.024(a) during a calendar year before or during
13 the last calendar year under AS 43.55.024(b) for which the producer
14 could take a tax credit under AS 43.55.024(a);

15 (G) oil and gas, other than gas produced before 2022 and used
16 in the state, produced in aggregate from all leases or properties in the state that
17 include land north of 68 degrees North latitude and are not subject to
18 AS 43.55.011(e)(1);

19 (H) oil and gas, other than gas produced before 2022 and used
20 in the state, produced in aggregate from all leases or properties in the state that
21 are not subject to AS 43.55.011(e)(1) and are described in AS 43.55.024(a),
22 during a calendar year before or during the last calendar year under
23 AS 43.55.024(b) for which the producer could take a tax credit under
24 AS 43.55.024(a);

25 (I) oil and gas produced in aggregate from all leases or
26 properties in the state that do not include land north of 68 degrees North
27 latitude and are not subject to AS 43.55.011(e)(1); this subparagraph does not
28 apply to

29 (i) gas that is produced before 2022 and used in the
30 state;

31 (ii) oil or gas that is produced before 2022 from a lease

or property in the Cook Inlet sedimentary basin;

(iii) oil or gas that is produced from a lease or property described in AS 43.55.024(a) during a calendar year before or during the last calendar year under AS 43.55.024(b) for which the producer could take a tax credit under AS 43.55.024(a);

(2) AS 43.55.020(a), the monthly production tax value of taxable oil, gas, or oil and gas produced by a producer during a month, in a given category for which a separate production tax value is required to be calculated under this paragraph, is equal to the gross value at the point of production of that oil, gas, or oil and gas, respectively, taxable under AS 43.55.011(e), less 1/12 of the producer's lease expenditures under AS 43.55.165 for the calendar year that are applicable to the oil, gas, or oil and gas, respectively, in that category produced by the producer during the calendar year, as adjusted under AS 43.55.170; a separate monthly production tax value must be calculated for each of the categories for which a separate annual production tax value is required to be calculated under (1) of this subsection.

* **Sec. 21.** AS 43.56.160 is amended to read:

Sec. 43.56.160. Interest and penalty. When the tax levied by AS 43.56.010(a) becomes delinquent, a penalty of 10 percent shall be added. Interest on the delinquent taxes, exclusive of penalty, shall be assessed at the rate specified in AS 43.05.225(1) [A RATE OF EIGHT PERCENT A YEAR].

* **Sec. 22.** AS 43.77.020(d) is amended to read:

(d) A person subject to the tax under this chapter shall make quarterly payments of the tax estimated to be due for the year, as required under regulations adopted by the department. A taxpayer will be subject to an estimated tax penalty, determined by applying the interest rate specified in AS 43.05.225(1) [AS 43.05.225] to the underpayment for each quarter, unless the taxpayer makes estimated tax payments in equal installments that total either

(1) at least 90 percent of the taxpayer's tax liability under this chapter for the tax year; or

(2) at least 100 percent of the taxpayer's tax liability under this chapter for the prior tax year.

1 * **Sec. 23.** AS 43.90.430 is amended to read:

2 **Sec. 43.90.430. Interest.** When a payment due to the state under this chapter
3 becomes delinquent, the payment bears interest at the rate applicable to a delinquent
4 tax under **AS 43.05.225(1)** [AS 43.05.225].

5 * **Sec. 24.** AS 43.55.023(m) is repealed.

6 * **Sec. 25.** The uncodified law of the State of Alaska is amended by adding a new section to
7 read:

8 **APPLICABILITY.** (a) Sections 11, 12, 15, and 16 of this Act apply to expenditures
9 incurred after December 31, 2011.

10 (b) Sections 6 - 9 and 20 of this Act apply to oil and gas produced after December 31,
11 2012.

12 (c) Section 19 of this Act applies to any tax liability for the production of oil and gas
13 after December 31, 2013.

14 * **Sec. 26.** The uncodified law of the State of Alaska is amended by adding a new section to
15 read:

16 **TRANSITION: REGULATIONS.** The Department of Revenue may proceed to adopt
17 regulations to implement this Act. The regulations take effect under AS 44.62 (Administrative
18 Procedure Act), but not before the effective date of the provision of this Act implemented by
19 the regulation.

20 * **Sec. 27.** Sections 11, 12, 14 - 18, 24, and 25(a) of this Act take effect January 1, 2012.

21 * **Sec. 28.** Sections 6 - 9, 20, and 25(b) of this Act take effect January 1, 2013.

22 * **Sec. 29.** Sections 19 and 25(c) of this Act take effect January 1, 2014.

23 * **Sec. 30.** Except as provided in secs. 27 - 29 of this Act, this Act takes effect July 1, 2011.